Montgomery County, Maryland
Office of the County Executive
Office of Internal Audit

Purchasing Card Program Review – Internal Controls

November 5, 2020

Highlights

Why MCIA Did this Review

The Montgomery County Office of Internal Audit (MCIA) conducted a review of the Montgomery County Government's (County) Purchasing Card (P-Card) Program. The County's Department of Finance (Finance) is responsible for administering the Program as well as providing training, policies, guidance, and periodic monitoring of transactions to County departments using the P-Card to purchase and/or pay for small dollar goods and/or services. As of June 2020, the County has 655 cardholders in 41 departments. In fiscal year 2020, there were approximately 37,881 transactions totaling $17,605,831 in spending.

This review included conducting a fraud risk assessment followed by an internal control review based on the results of the risk assessment. The review was conducted by the accounting firm SC&H Group, Inc., under contract with MCIA.

MCIA is making four recommendations to strengthen the County's internal controls within the P-Card Program.

Purchasing Card Program Review – Internal Controls

What MCIA Found

The P-Card Program has grown significantly over the past six fiscal years in the number and total dollar value of transactions, and the number of cardholders. However, the County has not scaled management and monitoring functions to align with the increased size of the program in order to help mitigate the risk of fraud, waste, or abuse.

We identified four recommendations to strengthen controls and mitigate risks within the P-Card Program, including:
1. Establishing automated monitoring processes for P-Card transactions to prevent/detect fraud, waste, and abuse
2. Implementing periodic monitoring and oversight of the P-Card Administrator function
3. Improving the transactional audit trail, and data and reporting availability for certain P-Card related activities
4. Updating the P-Card Manual to document current and updated P-Card processes

TABLE OF CONTENTS

Objectives

This report summarizes the review of Montgomery County's (the County) Purchasing Card (P-Card) Program. The review was performed by SC&H Group, Inc. (SC&H), under contract with the Montgomery County Office of Internal Audit (MCIA). The review included conducting a fraud risk assessment and targeted test/evaluation procedures based on the results of the fraud risk assessment.

The review focused on how the County manages risks associated with P-Card transactions and how it provides training, policies, and other guidance to County departments/offices. The objectives were to:
1. Identify fraud risks, controls, and gaps within the County's P-Card function
2. Evaluate controls, processes, and data to determine risk mitigation effectiveness

Background

Program Overview
The County's P-Card Program (Program) is administered through Accounts Payable (A/P) within the Controller Division of the Department of Finance (Finance). The Program is managed by the P-Card Administrator, a County Finance employee who reports to the A/P Manager. The P-Card Administrator duties are further explained in the _Key P-Card Program Roles and Responsibilities_ section of this report.

The Program's purpose is to provide an efficient and effective method for purchasing and/or paying for small dollar goods and/or services to reduce paperwork and costs associated with processing vendor payments. The physical P-Card is a JPMorgan Chase Bank (JP Morgan) Mastercard credit card, and is issued to individual cardholders or to a department ("Department P-Card"). P-Card transactions are recorded and administered in JPMorgan's PaymentNet system.

Program Growth
The Program has seen significant growth in recent years. Over the past five fiscal years (FY), the Program has experienced increases of 41% in P-Card transaction value, 34% in number of transactions, and 36% in the number of cardholders. See **Table 1** below for P-Card data from FY 2015 through FY 2020.

Table 1: P-Card Statistical Analysis[1]			
Fiscal Year	**Transaction Value**	**Transaction Count**	**Cardholder Count**
2015	$13,813,383	33,026	440
2016	14,301,268	34,436	433
2017	17,129,047	40,753	595
2018	17,608,496	41,880	606
2019	19,456,257	44,180	597
Total	**$82,308,451**	**194,275**	**--**
Increase: FY15 – FY19	**41%**	**34%**	**36%**
_2020[2]_	_$17,605,831_	_37,881_	_655_

---

[1] Source: SC&H analysis of P-Card transactions from PaymentNet for the period of July 1, 2014 through June 30, 2019. FY 2020 information is based on total transaction amount and count information provided by the County.
[2] Due to the COVID-19 pandemic and the potential negative impact to transactions, FY 2020 was not included in the statistical analysis to avoid results based on incomparable data.

Prior P-Card Operations Reviews

MCIA[3] and the Office of the Inspector General (OIG)[4] conducted operations reviews in 2012 and 2016, respectively. Both reviews focused on assessing compliance with P-Card policies and procedures and included detailed transaction testing. Observations from these reports were considered during SC&H's review to identify risks, but implementation of recommendations associated with the past reviews was not evaluated as part of this review.

Key P-Card Program Roles and Responsibilities

The following provides a summary of key Program roles and responsibilities associated with the County's P-Card Program.

1. **P-Card Administrator:** The P-Card Administrator is a County Finance employee responsible for managing and overseeing the P-Card Program. The P-Card Administrator's responsibilities encompass the entire Program: working with JP Morgan to resolve issues; coordinating with A/P to ensure timely payment of the JP Morgan credit card statement; requesting, distributing, and canceling P-Cards; setting up access by role in PaymentNet; training all new cardholders, transaction approvers, and department liaisons on P-Card policies and procedures; providing periodic transaction monitoring; and investigating improper P-Card use.

2. **Cardholder:** The cardholder is a County employee authorized by their Department Director (or designee[5]) to be a single user of a County issued P-Card. The P-Card bears the cardholder's name and may be used to pay for purchases that comply with P-Card policies and procedures. For department cards (see *Department P-Cards* section of this report), the department designated cardholder is the P-Card custodian who is responsible for keeping track of purchases made on the Department P-Card.

3. **Transaction Approver:** The transaction approver is a County employee responsible for approving transactions of individual cardholders to ensure the transactions represent legitimate expenses and are classified appropriately. The transaction approver is designated in writing by the Department Director, may be the immediate supervisor of the cardholder or someone in a higher or lower level position (e.g., if the cardholder is the Department Director or a Division Chief), and must be different from the cardholder. This person may be the department liaison if the department liaison is not also a cardholder. A transaction approver may also be a cardholder, but they may not approve their own transactions.

4. **Department Liaison:** The department P-Card liaison is a County employee designated to assist the P-Card Administrator at the department level. This employee works with the P-Card Administrator to ensure compliance with P-Card policies and procedures and coordinates communication between the P-Card Administrator and cardholders. In small departments, the department liaison may also be a cardholder or other cardholder's transaction approver.

5. **Financial Analysis, Audit, and Compliance (FAAC) Unit:** FAAC is a group of County Finance employees responsible for performing analyses to improve financial reporting, conducting post-payment audits of financial transactions, and ensuring compliance with

---

[3] Internal Audit: The County Government's Purchase Card Program (MCIA-12-5; February 17, 2012): https://www.montgomerycountymd.gov/exec/Resources/Files/audit/FINPurchaseCardProgram.pdf
[4] Final Report: Purchase Card Policies and Procedures of Montgomery County Government (OIG-16-007; March 14, 2016): https://www.montgomerycountymd.gov/OIG/Resources/Files/PDF/IGActivity/FY2016/mcg_p_card_final_report_14_mar_2016.pdf
[5] The Department Head can delegate their authority in a written submission to the P-Card Administrator.

Department of Finance policies, including P-Card transactions.[6] FAAC currently reviews 25 P-Card transactions per month for compliance with policies and procedures (referred to as the post-payment audit) and performs analytics to evaluate whether transactions were split to circumvent P-Card policies and procedures (referred to as split transaction monitoring). FAAC investigates improper usage of the P-Card and reports findings to Finance management, the P-Card Administrator, and, if necessary, Office of Procurement management.

PaymentNet Access Roles and Responsibilities

Access roles are maintained in PaymentNet. The P-Card Administrator assigns user access based on the individual's role. The County uses standard roles provided by JP Morgan. However, roles can be customized by the P-Card Administrator. Additionally, the P-Card Administrator determines and assigns the approval hierarchy and scope which determines what each role can view and/or approve. Access roles within PaymentNet are limited to the following four roles.

1. **Administrator:** The Administrator role provides privileged access to request, cancel, and make changes to existing P-Cards; assign standard roles or create/change custom roles in PaymentNet; and change other system requirements (e.g., allowable or blocked Merchant Category Codes (MCC)). The Administrator role in PaymentNet is the only role that can request or cancel P-Cards. Administrator access is currently limited to the P-Card Administrator and their direct supervisor, the A/P Manager. Periodically, Finance IT may need Administrator access to make changes in PaymentNet to align with the County's General Ledger (G/L). Additionally, Administrator access may be granted temporarily to another Finance position to assist the P-Card Administrator in executing certain duties. In these scenarios, access is removed when it is no longer needed.

2. **Cardholder:** The cardholder role allows the cardholder to see their account and review their transactions. A cardholder can change the G/L account coding from default to the actual expenditure line within their department. A cardholder cannot approve their own transaction unless their approval hierarchy or scope is set to self.[7]

3. **Approver:** The approver role allows a user to approve cardholder transactions. When access is set up for a cardholder, the P-Card Administrator sets up an approval hierarchy and scope that defines who can approve the transactions. The approval hierarchy can be one or more users within a hierarchy.

4. **Auditor:** The auditor role provides the user with view-only access to any transactions within the assigned hierarchy and scope. The auditor hierarchy is set at the department level for department P-Card liaisons (or other department staff with a need for view-only access) or at the County level (i.e., all P-Card transactions) for FAAC.

P-Card Requests and Account Setup

P-Cards are requested by -the department P-Card liaison and approved by the Department Director. The P-Card Administrator ensures the Mastercard P-Card Application Data form is properly filled out and approved by the Department Director (or designee). The key information needed for setup is the following:

1. Personal details (e.g., name, last four digits of social security number, date of birth, etc.)

---

[6] FAAC is a unit newly created in February 2019. It was established to enhance controls over various financial processes including purchasing, payments, and P-Card transactions. Finance expects the FAAC group to continue to expand and improve their monitoring program through automation (e.g., by acquiring/implementing new systems, software, or tools).

[7] The P-Card Administrator stated the approval hierarchy is never set to a hierarchy that would allow the cardholder to approve their own transactions.

2. Department details (e.g., department, division, department liaison, business address)
3. Transaction approver name
4. Default G/L cost center and accounting code or Grant/Project costing details
5. Transaction limit details[8] (i.e., single transaction limit, monthly transaction limit)
6. Allowable Merchant Category Codes (MCC) Groups (e.g., standard, travel, and/or department specific)[9]

If the application is accurate, complete, and approved, the P-Card Administrator requests a new card from JPMorgan through PaymentNet. Additionally, the cardholder's PaymentNet access and transaction approver are assigned during the new card setup process. The P-Card Administrator also inputs the default G/L account coding, transaction limit restrictions, and allowable MCC groups.

Once JP Morgan has processed the request, the P-Card Administrator receives and maintains all physical copies of P-Cards until the cardholder completes required training. When the cardholder completes training, the cardholder takes custody of their card and signs a Cardholder Agreement stating that they attended training and acknowledge they will abide by procurement laws and regulations and the P-Card Program Policy and Procedure Manual (P-Card Manual).[10] It is then the cardholder's responsibility to set up their username and password to access their PaymentNet account and, by calling the 800 number on the card, to activate their card. Once setup is complete, the cardholder may use their card.

Card Utilization
Cardholder transactions are limited by the following criteria, which are customized by the P-Card Administrator.
1. **Single transaction limits:** This limit sets a maximum dollar amount a cardholder can purchase in one transaction. The current population of cardholders' single transaction limits range from $30 to $35,000.

2. **Monthly transaction limits:** This limit sets a maximum dollar amount a cardholder can spend during the billing cycle. The current population of cardholders' monthly transaction limits range from $200 to $50,000.

3. **Merchant Category Codes:** MCCs are four-digit numbers that credit card/P-Card issuers use to categorize vendor types. The County setup groups[11] of MCCs include the following:
   a. Allowable MCCs: County employees can make purchases from allowable MCCs. Allowable MCCs are categorized into two sub-groups.
      i. Allowable MCCs for all County cardholders.
      ii. MCCs that are allowable for cardholders of a certain department.
   b. Blocked MCCs: County employees cannot make purchases from a vendor marked with a blocked MCC unless the MCC code is specifically allowed for a certain cardholder or department. For example, alcohol purchases are blocked on County P-Cards. However, the Department of Alcohol Beverage Services can - pay their alcohol suppliers' bills/invoices on their P-Cards.

---

[8] The P-Card Administrator reviews the transaction limit details for reasonableness but relies on the Department Director's and department liaison's determination of transaction limit amounts. Unless a limit is determined to be noncompliant with P-Card policies and procedures or otherwise inappropriate, the P-Card Administrator will set the limit as requested by the Department Director.
[9] MCC groups are defined further under sub-head *Card Utilization*.
[10] Finance began revisions to the P-Card Manual in September 2019, prior to initiation of this review. As of the close of fieldwork in June 2020, the P-Card Manual revisions were not complete and, therefore, were not reviewed.
[11] There are currently 26 MCC groups on the P-Card Application form.

If a cardholder attempts to make a purchase that 1) is not allowable for that cardholder and/or 2) is a blocked MCC, the transaction is declined at the point of sale. Declined purchases are logged and reported to the P-Card Administrator by JP Morgan daily. If the cardholder needs to make the purchase, and the transaction is necessary, allowable, compliant with P-Card policies, and approved by the Department Director, the cardholder would need to work with their P-Card Department Liaison who in turn would work with the P-Card Administrator to change the above criteria.

Transaction Review and Reconciliation

The billing cycle is determined by JP Morgan and generally ends on the 25th of every month[12]. Throughout the month, transactions post to the cardholder's account once the vendor has been paid by JP Morgan. Each month, the P-Card Administrator emails cardholders, transaction approvers, and department P-Card liaisons notification of the due date by which reconciliations of accounts must be completed; the reconciliation due date is generally between the 7th and 9th of the month following the billing cycle close date.

At the end of the billing cycle, cardholders can access their statement of account. It is the cardholder's responsibility to review each transaction to ensure the accuracy of their statement. The review includes providing comments, ensuring the transaction is coded to the proper G/L account[13], marking each transaction as reviewed in PaymentNet, and signing a physical copy of their statement of account. Following completion of the cardholder's review, the transaction approver must review and approve each transaction in PaymentNet, mark the transaction approved, and sign the statement of account. The transaction approver, cardholder, or record keeper employee then sends the reconciliation packet and receipts to Department of General Services Imaging Center to be scanned into Zyimage document imaging system. As of June 2020, the reconciliation packet and receipts are attached by the cardholder directly into PaymentNet.

PaymentNet provides the following transaction statuses:
1. **New:** The transaction is posted and has not been reviewed.
2. **Reviewed:** The transaction has been reviewed by the cardholder.
3. **Approved:** The transaction has been approved by the transaction approver.

Upload to Oracle

All P-Card transactions are loaded from PaymentNet to Oracle (the County's third-party ERP software) the day after reconciliations are due, regardless of the transaction's status, to ensure prompt payment to JP Morgan. On the date following the reconciliation due date, the P-Card Administrator loads transactions from PaymentNet into Oracle. This process begins approximately 10 business days prior to the JP Morgan credit card statement due date to provide the P-Card Administrator time to ensure transactions from PaymentNet accurately and completely transfer to A/P Oracle. For example, if G/L account data does not transfer properly, the transaction will be rejected when it attempts to load in A/P Oracle. The P-Card Administrator works with the department to properly code the transaction so all rejected transactions can be uploaded timely.

---

[12] The billing cycle closes on the 25th, unless the 25th falls on a weekend or bank holiday. Then, it is moved to the next business day.

[13] All transactions are set to a default cost center and account code. It is the cardholder's responsibility to change the default account coding when appropriate to ensure the expenditure is properly recorded.

Billing and Payment

JP Morgan bills the County on a monthly basis for all purchases made on the P-Cards. If a cardholder made a fraudulent or erroneous purchase, the County is liable for all transactions made by cardholders. Therefore, per the JP Morgan contract, the County is obligated to pay its monthly credit card statement on time regardless of whether all reconciliation, review, and approval procedures have been performed.

On a monthly basis, the P-Card Administrator reconciles the JP Morgan Monthly Credit Card Statement to the detailed transaction listing from PaymentNet and the transactions that were loaded to Oracle. Any differences are investigated and resolved. The payment to JP Morgan follows the County's standard A/P policies and procedures, which requires approval from the A/P Manager. Once payment has been made to JP Morgan, the P-Card Administrator ensures the JP Morgan payment was accurate, complete, and timely.

P-Card Transfers

A P-Card cannot be transferred between departments (e.g., if an employee moves to a new department or if a department/division is reorganized under a new department). The impacted P-Card would be cancelled, and a new P-Card would be requested through the P-Card Application process.

P-Card Cancellation

There are two ways a P-Card is cancelled: directly by the P-Card Administrator or by JP Morgan.

The P-Card Administrator can cancel a card for the following reasons.
1. **Policy violations:** These include fraudulent purchases, misuse, card sharing, and/or failure to submit timely reconciliations. When a policy violation occurs, the P-Card Administrator notifies the department P-Card liaison and Department Director of the violation and reason for cancellation.

2. **Departmental changes:** These include employee terminations, employee transfers between departments, or changes in job responsibilities (e.g., an employee no longer needs a P-Card). When a departmental change occurs, the P-Card Administrator is notified by the department[14] (or with employee terminations, the Office of Human Resources) to terminate the P-Card.

If JP Morgan identifies a card expiration or fraudulent purchases on a P-Card, JP Morgan will cancel the card and issue a new P-Card. The P-Card Administrator receives and maintains all new P-Cards until the cardholder physically takes custody of the new P-Card.

Department P-Cards

P-Card Requests and Account Setup

A department may request a Department P-Card through a Department Mastercard P-Card Application form. This application is similar to the individual cardholder's Mastercard P-Card Application form with the following exceptions.
1. Employee personal information is not provided (e.g., social security number, date of birth).
2. The cardholder first name is input as the department abbreviation.

---

[14] The P-Card Administrator receives notification of countywide terminations directly from the Office of Human Resources. If a cardholder has been terminated, the P-Card Administrator would immediately cancel the card and reach out to the department liaison to ensure any outstanding, unapproved transactions can be reconciled.

3. The cardholder last name is input as the station[15], division, section, or program.
4. An email address and telephone number for the custodian, reviewer, log keeper[16] of the Department P-Card is provided.

If the application is accurate and complete, the P-Card Administrator requests the Department P-Card from JP Morgan. When the Department P-Card is received, the individual identified as Department P-Card custodian, reviewer, and log keeper must attend training and sign a Cardholder Agreement to obtain custody of the Department P-Card. This individual would be responsible for setting up their PaymentNet Account and activating the Department P-Card for use.

Department P-Card Card Utilization
Authorized employees within the station, division, section, or program defined on the Department Mastercard P-Card Application form can use the Department P-Card. The Department's P-Card custodian must maintain the Department P-Card Log, which records the following:
1. The date the Department P-Card was signed out for use
2. The signature of authorized employee (i.e., to sign the card out)
3. The date the Department P-Card was returned
4. The signature of an authorized employee (i.e., to sign the card back in)
5. Acknowledgment that receipts were provided for purchases
6. Justification for the purchase or purchases
7. A beginning and ending P-Card balance for the log

Transaction Review and Reconciliation
At the end of the billing cycle, the Department P-Card custodian must reconcile the Department P-Card Log and mark the transactions as reviewed in PaymentNet. This requires the Department P-Card custodian verify and reconcile receipts for all department purchases, ensure comments are accurately recorded, and ensure transactions are properly allocated to the appropriate expenditure coding.

Designated Department P-Card approvers are responsible for marking the transactions as approved in PaymentNet, verifying receipts are accurate and complete, and ensuring purchases comply with P-Card policies and procedures. The Department P-Card custodian and approver must also ensure that receipts are scanned and uploaded into the document management system.

Document Sharing and Communication
P-Card related documentation is centralized and shared on the Finance's Intranet site. The SharePoint site contains:
1. Policies and procedures, including the P-Card Manual
2. Applications, agreements, forms, guidance
3. Training materials
4. Job aids, frequently asked questions, quick reference guides
5. MCC blocks and JP Morgan decline code definitions
6. JP Morgan and PaymentNet guidance
7. Instructions for printing statement of accounts and imaging receipts for monthly reconciliations

---

[15] Station refers specifically to Montgomery County Police Department and Montgomery County Fire and Rescue Services.
[16] The custodian, reviewer, and log keeper is the same person for the department P-Card. Collectively, they are referred to as the Department P-Card custodian.

8. Communications from the P-Card Administrator

Scope and Methodology

The review was conducted from November 2019 to June 2020. The review focused on current P-Card processes administered by Finance and transactions processed throughout the County. Processes included the following:
1. Card authorization, setup, and activation
2. Card cancellation
3. Utilization
4. Cardholder changes (e.g., transaction limits or allowable MCCs)
5. Transaction and compliance monitoring
6. Card security

Scope criteria included the following:
1. Transactions processed from July 1, 2018 through December 31, 2019[17].
2. PaymentNet data from July 1, 2014 through December 31, 2019 was used to perform a trend analysis and provide information for this report.
3. The scope did not include obtaining detailed process understanding of employee reimbursement processes and procedures. However, iExpense data was obtained to compare to P-Card transaction data and search for potential duplicate expenditure submissions.
4. The scope did not include meeting with any specific departments, as all departments must follow the policies and procedures established and enforced by Finance.

In order to achieve the objectives, SC&H performed the following procedures.

Fraud Risk Assessment
A fraud risk assessment of the County's P-Card operations was conducted and included the following:
1. Documenting P-Card operations from end-to-end.
2. Identifying risks or scenarios that potentially could be exploited to commit fraud.
3. Identifying and overlaying the internal controls on the operation/process.
4. Assessing the likely effectiveness of the controls and the resulting residual risks that appear to remain.
5. Identifying potential gaps in the internal controls.

The identification of potential residual risks and gaps in the control environment allows the County to focus corrective actions on additional or re-designed controls that need to be implemented to address any high-risk situations.

Data Collection
SC&H obtained and reviewed guidance, training, and policy and procedure documents from the County's P-Card Program SharePoint site. Examples of documents/files received include the following:
1. P-Card Policy and Procedure Manual (revised March 31, 2017): This manual is the Program's guiding document.
2. Mastercard P-Card Training slides: This is the training provided to cardholders and approvers by Finance.

---

[17] The scope is limited to the 1st half of FY 2020 as complete data for the fiscal year was not available during the time of the review. The County's information was limited to total amounts.

3. Various County developed forms, instructions, Frequently Asked Questions, and quick reference guides to assist departments in executing their responsibilities.
4. PaymentNet training, quick reference guides, and other documentation provided by JP Morgan.
5. P-Card transactional data from PaymentNet provided by Finance.

Interviews
Interviews and walkthroughs were conducted with the P-Card Administrator and A/P Manager to understand and document processes and internal controls, and identify the risks associated with each of the following areas.
1. PaymentNet roles and responsibilities
2. Requesting and approving new P-Cards
3. Cancelling P-Cards
4. Cardholder and approver training
5. Distribution and security of cards
6. Allowable purchases and transaction restrictions/limitations
7. Transaction monitoring
8. Requesting, approving, and executing cardholder changes
9. Reconciliation and approval of transactions
10. Transfer of transactions between PaymentNet and Oracle

Fraud Risk and Control Matrix
Using the information obtained from data collection and interviews, SC&H developed a fraud risk and control matrix (RCM) that (a) identifies the relevant subprocesses, controls, and risks (including the likelihood and impact) of fraud being committed; (b) can be updated based on changes in the process/operation or controls implemented; and (c) provides a structured framework for testing the effectiveness of the existing controls.

Test Plan and Preliminary Reporting
Following the RCM's development, a test plan was created to test the operational effectiveness of internal controls identified during the risk assessment.

Fieldwork
Fieldwork consisted of performing data analytics and testing the operational effectiveness of internal controls identified during the fraud risk assessment.

Data Analytics
SC&H conducted data analytical procedures over multiple transaction populations to identify trends and summarize activity. The analytics performed included the following:
1. Purchases by departments
2. Purchases by cardholder
3. Purchases by vendor
4. Purchases by MCC
5. Purchases near transaction limits
6. Potential duplicate submission of expenditures (i.e., between iExpense and P-Card data)

P-Card Operations Internal Controls Testing
Internal controls identified during the risk assessment were tested to assess the operating effectiveness of the control activity. SC&H prepared a document request list for all information needed to satisfy the testing steps developed in the test plan, including populations needed to select samples for which additional information was requested.

Additional walkthroughs were performed with the P-Card Administrator and A/P Manager to obtain a more thorough understanding of selected process areas and to evaluate the effectiveness of the related internal controls. Results of testing performed and walkthroughs conducted were compiled and discussed with the P-Card Administrator and Finance Management.

Data and Reporting Limitations

The following limitations to the review were identified. These limitations were communicated to Finance management and resulted in an observation. Refer to Finding 3 below.

1. **PaymentNet Access**: The PaymentNet access report provided by the County only presented current access. There was no log or audit trail of historical access changes. Further, access within PaymentNet can be active, inactive, or removed. If the user's access was active or inactive, it was displayed on the access report without indication. If the user's access was removed, it would not show on the access report. These limitations restricted the ability to test if a user had an inappropriate role/access during the in-scope period, if access was changed, or if access was removed timely.

2. **PaymentNet History:** A listing of cardholder changes (e.g., change in single transaction limit) from PaymentNet was provided. However, data related to changes made to cardholder accounts were limited to the preceding 13 months[18]. Therefore, if a testing-related inquiry occurred on June 15, 2020, Finance was limited to audit data through May 15, 2019. Additionally, certain change histories were not accessible by the P-Card Administrator when requested from JP Morgan. For example, there was one cardholder change that did not have history and JP Morgan could not provide an explanation for the change.

3. **Transaction Status:** The transaction status (i.e., new, reviewed, or approved) in PaymentNet is updated as transactions are reviewed and approved, after transactions are uploaded to A/P Oracle. However, these updates in transaction status do not flow to A/P Oracle. The status when transactions post to A/P Oracle will remain the same and reporting on when the transaction status changes is limited out of PaymentNet. Additionally, there is not a report that provides the date a transaction posted and the date the transaction was reviewed and approved. Therefore, there is limited ability to test the timeliness of transaction review and approval without going into each individual transaction's history.

---

[18] This was confirmed by the P-Card Administrator with their JP Morgan representative.

Findings and Recommendations

The following four findings were identified to strengthen and expand P-Card processes and controls.

Due to the sensitive nature of the findings, detailed information is not included in this report. Detailed findings will be provided separately to County management for review and response.

1. Transaction Monitoring
There are limited formalized and consistent monitoring procedures performed by the P-Card Administrator to evaluate P-Card transactions for compliance and appropriateness, per requirements in the P-Card Manual; such procedures could be improved and strengthened. Limited procedures are also performed by FAAC, which include the monthly post-payment audit and split transaction monitoring procedures.

> **Summary Recommendations**
> 1.1: Evaluate opportunities to automate and/or formalize P-Card transaction monitoring functions and procedures.
>
> 1.2: Document transaction monitoring requirements that must be performed by the P-Card Administrator, or delegate.
>
> 1.3: Assign an individual independent of the P-Card Administrator to monitor that transaction monitoring occurred timely, at the desired frequency, and that policy violations were properly communicated, escalated, and resolved.

2. P-Card Administrator Roles and Responsibilities
The P-Card Administrator has administrator access in PaymentNet and incompatible responsibilities that are not consistent with acceptable segregation of duties controls. Further, there is limited oversight of actions performed by the P-Card Administrator to mitigate risks associated with administrator access and segregation of duties.

> **Summary Recommendations**
> 2.1: Evaluate the workload and responsibilities of the P-Card Administrator and consider opportunities to delegate responsibilities to mitigate segregation of duties risks.
>
> 2.2: Implement a process to periodically and formally monitor activities performed by the P-Card Administrator for responsibilities that cannot be reasonably segregated.
>
> 2.3: Assign a Finance employee, independent of the P-Card Administrator, to perform periodic inspections of high-risk activities.
>
> 2.4: Ensure the P-Card Administrator has accurate, complete, and updated desktop procedures that provide step-by-step documentation for the execution of key responsibilities.
>
> 2.5: Consider cross-training a Finance IT professional in PaymentNet responsibilities to ensure the actions of the P-Card Administrator are appropriate and justified.

3. **Availability of Reporting and Audit Trail**
   The availability of certain reports and an audit trail for certain activities was limited. For example, we identified:
   a. Reports that did not contain key information for effective monitoring,
   b. Reports that were not being utilized for monitoring of Program compliance, and
   c. Activities that lacked supporting documentation or evidence of timely follow-up.

   > **Summary Recommendations**
   > 3.1: Evaluate opportunities to improve reporting from PaymentNet to improve P-Card Program and transaction monitoring. Seek assistance from JP Morgan to understand their full suite of products, reports, and monitoring that are available and consider implementing.
   >
   > 3.2: Establish criteria for creating audit trails for key P-Card Program functions to help ensure timely, accurate, and complete execution.

4. **P-Card Policies and Procedures**
   The County's P-Card policies and procedures do not contain current versions of all relevant steps and requirements. Finance advised SC&H that the P-Card Manual was in the process of being updated beginning in September 2019. As of the close of the fieldwork phase in June 2020, the P-Card Manual was not complete and, therefore, was not reviewed.

   > **Summary Recommendations**
   > 4.1: Document and update policies, procedures, and processes to reflect the current state of P-Card operations.

Comments and MCIA Evaluation

We provided Finance with a draft of this report for review and comment. Finance responded with comments on October 30, 2020, and the response has been incorporated in the report at Appendix A. Finance concurred with the findings identified in the report, indicating that the department has taken steps to implement some of the recommendation and will be taking additional steps to strengthen internal controls and implement the recommendations contained in the report. No changes have been made in the report based on the response.

Appendix A – Finance Response

<p style="text-align:center">MEMORANDUM</p>

<p style="text-align:center">October 30, 2020</p>

TO: Bill Broglie, Internal Audit Manager
Office of the County Executive

FROM: Michael Coveyou, Director
Department of Finance

SUBJECT: Formal Comments on Draft Report: Purchasing Card Program Review – Internal Controls– dated May 2019

       Enclosed please find the Department of Finance formal response to the Purchasing Card Program Review – Internal Controls report issued by Internal Audit.

       If you, or the audit firm working with you, have any questions relating to the attached, please contact Karen Hawkins, Chief Operating Officer, Kim Williams, Controller, or me. You and your audit firm representatives have our contact information.

Attachment

cc: Karen Q. Hawkins, Chief Operating Officer, Department of Finance
Kim Williams, Controller
Karen Smith, Accounts Payable Manager
Danesha Chisholm, FAAC Manager

Finance Response to
Purchasing Card Program Review – Internal Controls
by the Office of Internal Audit
Dated October 2020

<u>**Recommendation:**</u>

5. Transaction Monitoring
There are limited formalized and consistent monitoring procedures performed by the P-Card Administrator to evaluate P-Card transactions for compliance and appropriateness, per requirements in the P-Card Manual; such procedures could be improved and strengthened. Limited procedures are also performed by FAAC, which include the monthly post-payment audit and split transaction monitoring procedures.

> **Summary Recommendations**
> 1.1: Evaluate opportunities to automate and/or formalize P-Card transaction monitoring functions and procedures.
>
> 1.2: Document transaction monitoring requirements that must be performed by the P-Card Administrator, or delegate.
>
> 1.3: Assign an individual independent of the P-Card Administrator to monitor that transaction monitoring occurred timely, at the desired frequency, and that policy violations were properly communicated, escalated, and resolved.

<u>**Finance Response:**</u>

The Finance Department agrees that there are opportunities to automate, enhance, and formalize P-Card monitoring processes, building upon work already started.

In the last five years, the P-Card program has grown by approximately 40%, while resources available to administer, support, and grow the program have remained the same. In order to further automate monitoring activities, additional software tools and capabilities were needed, beyond those already in use by Accounts Payable. Finance has procured such tools over approximately the last year, and selected staff in the Controller Division have received initial training on such tools. These enhancements were implemented as part of the establishment of the Financial Auditing, Accounting and Compliance Section (FAAC) unit effective in February 2019, less than one year before this review was started. The key priority of that unit was to establish policies, procedures, and forensic monitoring, and related systems to enable those activities, over certain purchasing and payment transactions. This was part of a phased approach to enhancing risk-based monitoring over financial transactions.

Those initial goals have largely been accomplished, and the FAAC unit had recently expanded its scope more into the P-Card program. The results of this review will help to inform and expand on that work which has already been started.

Finance will be evaluating additional opportunities to automate and formalize monitoring procedures, and will document such activities as they are implemented.

Currently, the Accounts Payable Manager oversees the P-Card Administrator responsibilities, including monitoring activities. Finance will be evaluating, based on availability of resources and risks associated with activities being monitored, any additional staff who should play a role in these processes and their roles.

Recommendation:

6. **P-Card Administrator Roles and Responsibilities**
   The P-Card Administrator has administrator access in PaymentNet and incompatible responsibilities that are not consistent with acceptable segregation of duties controls. Further, there is limited oversight of actions performed by the P-Card Administrator to mitigate risks associated with administrator access and segregation of duties.

   > **Summary Recommendations**
   > 2.1: Evaluate the workload and responsibilities of the P-Card Administrator and consider opportunities to delegate responsibilities to mitigate segregation of duties risks.
   >
   > 2.2: Implement a process to periodically and formally monitor activities performed by the P-Card Administrator for responsibilities that cannot be reasonably segregated.
   >
   > 2.3: Assign a Finance employee, independent of the P-Card Administrator, to perform periodic inspections of high-risk activities.
   >
   > 2.4: Ensure the P-Card Administrator has accurate, complete, and updated desktop procedures that provide step-by-step documentation for the execution of key responsibilities.
   >
   > 2.5: Consider cross-training a Finance IT professional in PaymentNet responsibilities to ensure the actions of the P-Card Administrator are appropriate and justified.

Finance Response:

The Finance Department agrees that there are opportunities to further segregate responsibilities and expand oversight and monitoring of P-Card Administrator duties. As previously noted in response to recommendation #1, resources able to be allocated to these functions have not kept pace with the growth of the program over the last several years.

An evaluation of the P-Card Administrator's workload for incompatible and excessive responsibilities has been started with an initial concentration on enhancing segregation of duties. We have already identified, delegated, and cross-trained selected responsibilities to other Accounts Payable personnel. As part of that delegation and cross-training, related procedures were informally documented. Also, the Accounts Payable Manager is periodically and formally monitoring certain activities performed by the P-Card administrator by using reporting tools available from our internal software and reporting features from JP Morgan Chase.

An inventory of P-Card desktop procedures is being developed, with a goal of identifying and resolving any gaps. These procedures will also be formalized in the standard format and methodology in use by the department and division. As procedures are revised or enhanced, those changes will also be formally documented.

As recommended, we will also be evaluating additional opportunities to reallocate existing P-Card Administrator responsibilities to other staff, especially those relating to systems administration and other high-risk activities. Any reallocation and reassignment of responsibilities will be subject to the core mission work and available resources of those other organizational units.

Recommendation:

7. **Availability of Reporting and Audit Trail**
   The availability of certain reports and an audit trail for certain activities was limited. For example, we identified:
      d. Reports that did not contain key information for effective monitoring,
      e. Reports that were not being utilized for monitoring of Program compliance, and
      f. Activities that lacked supporting documentation or evidence of timely follow-up.

> **Summary Recommendations**
> 3.1: Evaluate opportunities to improve reporting from PaymentNet to improve P-Card Program and transaction monitoring. Seek assistance from JP Morgan to understand their full suite of products, reports, and monitoring that are available and consider implementing.
>
> 3.2: Establish criteria for creating audit trails for key P-Card Program functions to help ensure timely, accurate, and complete execution.

Finance Response:

The Finance Department concurs with this recommendation.

Accounts Payable has partnered with our JPMorgan representatives to enhance our understanding of existing and potentially underutilized PaymentNet functionality. This is being done by attending regularly scheduled JPMorgan live training sessions. JPMorgan also offers

tutorials on enhancements that the Pcard Administrator has been reviewing on an ongoing basis. In addition, we have outreached to JPMorgan on report functionality, including areas where key audit trail data is available in the system but may not be presented on the reports currently being used.

As it relates to audit trails for key functions, we are in the process of automating the administration of P-Card requests through Sharepoint. This enhancement to the existing process will including workflow, associated securities, and reporting. We will be continuing to identify and resolve any additional opportunities to create and enhance audit trails and related documentation.

Recommendation:

8. **P-Card Policies and Procedures**
   The County's P-Card policies and procedures do not contain current versions of all relevant steps and requirements. Finance advised SC&H that the P-Card Manual was in the process of being updated beginning in September 2019. As of the close of the fieldwork phase in June 2020, the P-Card Manual was not complete and, therefore, was not reviewed.

Summary Recommendations
4.1: Document and update policies, procedures, and processes to reflect the current state of P-Card operations.

Finance Response:

The Finance Department concurs with this recommendation. As noted in the report, Accounts Payable began updating the P-Card Policy and Procedure Manual in September 2019. However, work to complete the update was delayed due to resource demands on Accounts Payable and the Controller Division to support several audits in process and then emergency procurements and programs established in response to the COVID pandemic. The update process is continuing with scheduled weekly work sessions. Documentation gaps identified as part of this review will be incorporated to the current update process. The timeframe to complete this process will depend on resource availability as we continue to support COVID-response and recovery related programs.